



Public Administration Select Committee

Oral evidence: [Accountability of Quangos and Public Bodies](#),
HC 110

17 June 2014

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Members present: [Mr Bernard Jenkin](#) (Chair), [Mrs Cheryl Gillan](#), [Sheila Gilmore](#), [Kelvin Hopkins](#), [Lindsay Roy](#), [Mr Andrew Turner](#).

Questions 79-232

Witnesses: **Jonathan Isaby**, Chief Executive, TaxPayers' Alliance, and **Dr Michael Pinto-Duschinsky**, Research Fellow, Policy Exchange, gave evidence.

Q79 Chair: Can I welcome you to the continuing evidence on quangos and public bodies and their accountability? Could I ask each of you to identify yourself for the record?

Jonathan Isaby: My name is Jonathan Isaby. I am the chief executive of the TaxPayers' Alliance.

Dr Pinto-Duschinsky: My name is Michael Pinto-Duschinsky. I am the senior consultant on constitutional affairs for Policy Exchange.

Chair: Can I ask each of you to give short and crisp answers, if at all possible; otherwise, I will require you to do that by pulling you up? I inveigh upon my colleagues to ask short and simple questions, preferably open ones, because our witnesses will give us far more than if we ask yes/no questions.

Q80 Sheila Gilmore: Perhaps each of you could start, as briefly as possible, by saying what you think is the appropriate use of public bodies by Government Departments.

Jonathan Isaby: Clearly, the lines that have been set up are that public bodies should be there where the Government want them to be political impartial, where they have a technical function, or they are supposed to be independently gathering facts about matters for decisions to be made later on. That seems reasonable, although I think that in the current circumstance there are probably far too many of them. The Government, through their review programme, have sought to reduce the number and consolidate some, which makes sense, but at the end of the day they are still bodies that are spending taxpayers' money and, in some cases, very considerable amounts of it. It is a matter of concern that a lot of that money is being spent without proper lines of accountability.

Q81 Sheila Gilmore: You would restrict it, broadly, to the three circumstances with which you started.

Jonathan Isaby: I think those guidelines are broadly correct, although, if you take them into account, there are some bodies in existence that do not fit those.

Q82 Sheila Gilmore: Maybe we will come on to that in a moment.

Dr Pinto-Duschinsky: There are certain circumstances where something that is highly technical and important but non-political, for example the Human Fertilisation and Embryology Authority on questions about the use of foetus and research, does involve moral and technical questions that may or should go to a specialist body outside government. That is one kind of case where you would want a specialist body outside government.

Where there is an issue is that there are low-level routine functions, for example the issuing of passports and any number of things like that, that in a way are difficult for Ministers to control, whether they are in or out of government. The real problem we are dealing with there is not about a public body versus government but the size of government, and the virtual impossibility for a Minister to reach down to routine everyday decisions to make sure they are properly administered. In a way, for that you do not resolve the question by being either inside or outside government. The problem we are facing is large government.

Q83 Sheila Gilmore: Perhaps no one has yet achieved it, but, if there were to be a substantial reduction in the types of public bodies, do you think that would be helpful?

Jonathan Isaby: At the moment there is a whole number of different types of bodies. The general public certainly will not understand—I am not sure all of us would necessarily—the difference between a non-departmental public body, an executive agency, a public corporation and all these different types of things. I think the witnesses you had before you last week pointed out that there were some equivalent bodies, like Ofsted and the Care Quality Commission, that do basically the same job for their respective areas of interest but are a different type of body. It does not make sense. I fear it is the case that over time politicians have felt the need to set up a body to do a certain job at a particular moment because something needs to be done. Organically, these bodies grow and grow and more and more come into existence. Frankly, if you were starting with a blank sheet of paper you certainly would not start from where we are now.

Dr Pinto-Duschinsky: As far as I can see, the terms “quango”, “NDPB”, “arm’s length body” and “EGO”—extra-governmental organisation—are all Westminster/Whitehall-speak and we can safely ignore it. It is not really where the issues are.

Q84 Chair: What definitions should we be using?

Dr Pinto-Duschinsky: Once one gets into definitions, one is in a very abstruse world where you have technical definitions that have very little meaning. I am happy with the word “quango”, and the wish to abolish that and talk about arm’s length bodies is, frankly, a matter of propaganda and not meaning.

Q85 Chair: Most people would regard the word “quango” as a propaganda term and that the other terms are attempts to try to categorise public bodies into a logical taxonomy for which, as Mr Isaby describes, there is no consistency of application across government.

Dr Pinto-Duschinsky: You will usually find that people who are part of the Whitehall machine will refer to arm’s length bodies to show they are insiders and those who are critics will use the term “quango”, but there is no real difference in meaning.

Q86 Chair: But should there not be some discipline about this?

Dr Pinto-Duschinsky: There never is about propaganda terms.

Q87 Sheila Gilmore: All of these bodies have different structures that could have an impact on their accountability. For example, you referred to the Care Quality Commission and Ofsted. They would probably both satisfy your initial view that there are some bodies that need to be independent. People consider that the inspection should be independent, so you would need to have them. Is there anything about those different structures that you think impedes accountability?

Jonathan Isaby: The fact they have different structures but are doing a similar job in their respective areas of expertise, and why there needs to be a further rationalisation of exactly the structures of these bodies, strikes me as very odd and confusing. I utterly accept that those kinds of inspection regimes need to be outwith the governmental machine. That is an important principle.

Q88 Sheila Gilmore: Does either of you have a view on whether these public bodies have greater public trust in them and, if they do, why?

Jonathan Isaby: I have not seen any particular polling on this issue, so I am not sure I can say a great deal about it. Suffice it to say that a whole load of these bodies end up being chaired by ex-politicians anyway. If you are a resident—we may come to this issue later—in a flood-hit area, it does not matter whether it is the Secretary of State of Defra or chairman of the Environment Agency; both are politicians as far as you are concerned and they have failed you if your home is getting flooded and nothing is being done about it.

Q89 Sheila Gilmore: Whether or not people have been politicians is maybe not the question in terms of people feeling that these bodies are accountable. You can elect politicians.

Jonathan Isaby: You can indeed elect politicians but you cannot elect the people who run the quangos because they are appointees. That is an area where people rightly will have concerns, because the Environment Agency has 12,000 staff and a huge budget—I forget the figure—and there need to be proper lines of accountability.

As to the Environment Agency, it has certain technical expertise, but I am not sure why that could not be part of a Government Department. You end up touching on wider issues of Civil Service reform and whether each Department should employ its own civil servants, and you move away from the situation where perhaps every few years people are moving from one Department to another and becoming bureaucrats in a different Department, rather than garnering expertise over a number of years in a particular Department. If a Department is employing people directly, that would be an argument for

some of the technical expertise and bodies involved on the technical side remaining part of a Department in order that you can have stronger lines of accountability in place.

Dr Pinto-Duschinsky: I think the reason why Ministers and governments like to remove certain hot potatoes is that it is convenient for them supposedly to de-politicise certain things that they may be unpopular in handling. Professor Matthew Flinders, who I see in this room, has written at length about the process of attempts at de-politicisation of issues. That is why it happens.

As far as accountability is concerned, the deeper problem is that Ministers have responsibility without power. That is the opposite of what Stanley Baldwin said, which is that press barons have power without responsibility. Ministers may select only a very small amount of special advisers; they are not allowed to choose their senior civil servants; their powers to make senior quango appointments are significantly limited; and, above all, Ministers are supposedly responsible for a huge number of routine decisions by low-level officials, and governmental size makes that kind of accountability extremely difficult. Therefore, we are dealing with a problem of government size and the lack of control and accountability that comes from that. There may be aspects that are affected by whether or not a body is a quango, but in practice it may be just shifting deckchairs. Whether a passport agency is within a ministry but so far removed from the Minister that it is going to be like a quango, or whether it is a quango, may not make much difference sitting where a Minister sits.

Q90 Mrs Gillan: If I have understood you correctly, part of your answer is saying that it is a way of moving the blame game away from frontline politicians and Ministers to another body.

Dr Pinto-Duschinsky: Sometimes it is. We have a real problem of accountability that is almost inherent. For example, the Home Office is a Department with all sorts of responsibilities. A Minister cannot possibly be on top of everything that happens in prisons, security and many areas. It is so unwieldy that it is said, quite rightly, that Ministers do not know any of a thousand things that are taking place within their Department that could end their careers. Therefore, it is a problem of the amount of things government has to do.

Q91 Chair: There are very large organisations in the private sector that do not seem to have this problem. Why does this affect only large organisations in the public sector?

Dr Pinto-Duschinsky: One answer is that if any one of us were chief executive of Google, or a huge organisation, we could choose our staff. The Minister comes in and cannot choose the executive team. We have a Civil Service. If they feel that the Civil Service is incompetent, resistant and politically biased, as many do, they can do virtually nothing about it. Therefore, you are given the hand you have got when you come in and do not have executive control. A Minister is not a chief executive by the nature of the system.

Q92 Mrs Gillan: Mr Isaby, before I ask my next question, do you have a comment on that front as well?

Jonathan Isaby: I would agree with pretty much everything Michael has just said. My personal instinct is that we probably should be moving towards a system where a Minister

can appoint senior people within the Department to oversee particular aspects of its work, because, after all, we are a democracy; we live in a country where you elect people to come to Parliament and then the biggest party forms the Government and so on, and you expect that Government to have an agenda and pursue it. At any change of government new Ministers coming in find a whole set of appointees from the previous Administration who were, by definition, used to the previous Administration and often sympathetic to the aims of it, and therefore are something of a road block to attempts to change things, if that is what a new Administration wants to do.

Q93 Mrs Gillan: You think that is still a problem despite the handover period that any potential incoming government has with those officials prior to an election.

Jonathan Isaby: I am sure there are a number of Ministers in the current Government who would tell you in very robust terms that they found that to be the case.

Q94 Chair: Why do you think most countries have adopted something akin to the Northcote-Trevelyan settlement, as opposed to an American-style spoils system?

Jonathan Isaby: I do not know.

Q95 Chair: What are the disadvantages of a spoils system that you recommend?

Jonathan Isaby: It is clearly a system I am sympathetic to, so I am not sure there are a great many disadvantages. If a Minister wants to be able to give political direction, then, as is their right as the democratically elected person in charge of a Department, they should be able to do that.

Q96 Chair: You could finish up with a senior Civil Service populated by party appointees. Is that right?

Dr Pinto-Duschinsky: That is not what I would think. Clearly, the disadvantage of having the Minister as would-be chief executive is that the Minister will not be a chief executive but an appointer of cronies. That has been the historical reason we want to escape from that system, and there are very good reasons for that.

Q97 Chair: But how are you going to avoid that if you give Ministers power to appoint?

Dr Pinto-Duschinsky: The way that you have to try to avoid it has been discussed periodically over the past 40 years. When Lord Crowther-Hunt did his report in the early 1970s he was pointing out that we had a Civil Service used to making policy but not managing things. During the Thatcher period we had the Next Steps agencies and Sir Peter Kemp. The complaint people like Sir Peter had was that the mandarin class was a group who had read PPE—up to a point, I think it is a marvellous thing to have the answers to everything over the weekend on two sides of a piece of paper—but had never run anything. It is fine to have we Oxbridge types thinking we know everything over the weekend, but you also need in government people who are experienced on the shop floor.

Q98 Chair: It is about addressing a skills problem.

Dr Pinto-Duschinsky: Yes. Government requires both making policy and management—running things—and the British weakness has been to put too much emphasis on Rolls-Royce policymaking brains and not enough on routine management at the shop floor level.

Q99 Chair: Why can this not be addressed without politicising all the top appointments of government?

Dr Pinto-Duschinsky: That would be my preferred answer.

Q100 Chair: So you disagree with Mr Isaby.

Dr Pinto-Duschinsky: I do not think we should politicise all of the top positions. We need to have a much more serious look at what we expect our civil servants to do and the difference between policy and management. I can give a good example of this. I am doing a piece of work on the Electoral Commission at the moment. An electoral commission can do two things: it can say what our policy is on participation, etc., or it can get the electoral register right. Getting the electoral register right and managing that people who are entitled to vote are on the register and those who are not entitled to vote are off it is a matter of doing a lot of little things carefully and very well. That is what we are bad at doing, because it is much easier to have general policy ideas than to say, “How do we get the register right?” That is the core example that could be in passports and a number of other things.

Chair: I am going to cut you off.

Q101 Mrs Gillan: Mr Isaby, the TaxPayers’ Alliance has said that quangos control a wide range of public activities, involving billions of taxpayers’ money, but remain unaccountable and distant from the public. I think that is a quote from your research director. Have you done any work on the total amount of taxpayers’ money that is spent by the quangocracy?

Jonathan Isaby: We have not done for several years, so we do not have any up-to-date information. The Government themselves publish their own list of public bodies. On that front, I would point out that there are bodies that should probably be on that list but are not. Before it lost all its taxpayer funding, the Carbon Trust was never on that list of bodies despite the fact it was funded entirely by taxpayers’ money through government grant. Looking through the list of public bodies again this morning—it is a very chunky set of organisations—I saw no mention, for example, of the Independent Parliamentary Standards Authority, which, lest we forget, spends a great deal of taxpayers’ money and makes decisions about how much all of you are paid. It is accountable to no taxpayer whatsoever. It pays its chairman, chief executive, director of policy and heads of comms more than any of you are paid as Members of Parliament. It is a bureaucratic monster of a quango as far as I am concerned, yet it seems to have escaped scrutiny in that list, for example.

Q102 Chair: Does that not suggest that we do need to tie down the definition so that when we are making a list we know what to include?

Jonathan Isaby: Anybody that is spending taxpayers’ money should be included, period.

Q103 Mrs Gillan: Would you care to do that piece of work and let the Committee have it? I think it would be very interesting to see where you find the lacuna.

Jonathan Isaby: If our very limited resources allow us to do that, I would be delighted to provide the Committee with any documentation we can put together. I am nervous about making promises when I have such a limited team on whom I can call to put that together.

Chair: We have got you until 10.15, which is not very long, and we have a number of other sections to get through, so we will move very swiftly.

Q104 Lindsay Roy: Mr Pinto-Duschinsky, you made an allegation about incompetence, lack of basic skillsets and political bias within the Civil Service. How substantial is that evidence and why is nothing being done about it?

Dr Pinto-Duschinsky: I am not going to make any personal direction against individuals who cannot answer. It is a broader question, but the degree of Civil Service competence varies greatly. From quite a lot of internal experience, not all civil servants are expert in the subjects, and some are spectacularly ignorant of subjects on which they have to decide. This is partly because they are moved from place to place and may know nothing about a subject that they are asked to take up. We have a Civil Service that tends to be good at managing committees and knows that, if you want to get something through, you tuck it into the Minister's box where it is likely to go through at 11 o'clock at night, or you put something on an agenda that is likely to come up at 10 to 1 just before lunch. There are great skills in managing the process.

In terms of the actual decision-making, we have had some spectacular blunders, as the book on blunders by Sir Ivor Crewe and Professor Anthony King has made clear. Some of them are quite spectacular.

Q105 Lindsay Roy: A critical question is why nothing is being done about it.

Dr Pinto-Duschinsky: It is very difficult to move a huge blob or mass. We have Ministers who move very frequently between Departments. They have to get something done and an announcement made for the next party conference that works. In terms of the deeper-rooted slow change, which is less spectacular and happens internally, there is less motive for a Minister to get that kind of thing under control.

Q106 Chair: Would that not suggest that the problem is with Ministers—the political class who churn around and want short-term announcements instead of thinking long term and staying in their jobs for a long time—not just civil servants?

Dr Pinto-Duschinsky: The political system is one whereby a Prime Minister is tempted to move people around very often—if there is a resignation for illness or scandal, it causes a whole lot of reshuffling—rather than leaving people in their place and having one or two people in. That political temptation of party management has made for too many reshuffles.

Q107 Chair: To pursue this for a minute, the atmosphere you describe in Government Departments of civil servants putting things through late at night or just before the end of a meeting does not suggest there is a very trusting atmosphere at the top of Government Departments between Ministers and officials. Would you agree with that?

Dr Pinto-Duschinsky: Yes, with some of them.

Q108 Chair: If Ministers were able to appoint more of their own people whom they do trust, how would those people then develop trust with the people they are managing: the rest of the public service or permanent Civil Service?

Dr Pinto-Duschinsky: There is a real problem here. Rather than answer questions in that degree of generality, I would recommend looking Department by Department to see what their major functions are, and how they do it.

Q109 Chair: But I am asking a question about relationships, not functions. You seem to be saying that it is poor relationships that undermine the functioning of the system. The system does not trust the Minister with the information, or a proper consideration of the issues, and the Minister is in too much of a hurry to think about the long-term things. How do we need to change the atmosphere to improve this trust in relationships at the top of government to make them more effective?

Dr Pinto-Duschinsky: As to the matter of trust, there is not a cookie-cutter answer to that. It depends on the causes of mistrust and tension within a particular Department. Some Departments are administering a great number of low-level things that have got to be done more effectively and other Departments are making policy. They are all trying to defend their budgets while they do it. If I were in the Committee's position, I would want to try to analyse where the problems are to do with not doing the administrative job properly and where they are to do with matters of policy, and that mix and the answer is different between Departments. In other words, to say that Ministers should have 25 special advisers rather than two or three, or whatever, is not necessarily the answer to this question, because you may have more mistrust if that were the position. That is why I am resistant to giving a simple answer to your question.

Q110 Mrs Gillan: I presume it depends also on the calibre of the Ministers concerned, because in many instances they do not have the experience of running anything.

Dr Pinto-Duschinsky: Yes.

Q111 Mrs Gillan: If you have a politician who has run something, it might mean there is a better-run and more effective Department.

Dr Pinto-Duschinsky: Absolutely.

Q112 Mr Turner: Dr Pinto-Duschinsky, I think you used the word "blob". What do you mean by "blob"?

Dr Pinto-Duschinsky: You mean government being a blob?

Q113 Mr Turner: You used the word "blob" and I am trying to understand what you mean by it.

Dr Pinto-Duschinsky: What I mean is that there can be an overwhelming number of functions going on that it is very difficult to disentangle to get control of those issues. One adviser told me that her Minister had 150 issues coming up in a day, even when those had been winnowed down by readers, and that often the most important things were slipped in late at night.

Q114 Chair: Should Ministers not be able to delegate and trust far more to their Departments so they are not overwhelmed with 150 things in a day?

Dr Pinto-Duschinsky: The implication was that the Department was deliberately flooding the Minister to make the Minister's task more difficult, so that the crucial matter was slipped in among smaller matters. That is part of the skill.

Q115 Chair: How should a Minister resolve that?

Dr Pinto-Duschinsky: The main power that a Minister has at the moment is to have a special adviser who is eyes and ears and can help to look through it and be the alert function, on the understanding that that special adviser would be very unpopular with the Department because of that job. That is the system. There is a question about whether we have enough or there should be a few more. The trouble with having too many more is the one you said. You have a politicised Department that make things worse. I would rather have a more co-operative way with the Civil Service.

Q116 Chair: How could that be achieved?

Dr Pinto-Duschinsky: I think that could be achieved by trying to be realistic about the types of functions that the Civil Service needs to achieve—in other words, what are administrative and political tasks—and, in the old phrase, to try to hive off and understand how the Passport Office operates and the types of things we are having crises about.

Q117 Chair: You want more public bodies with more independence.

Dr Pinto-Duschinsky: No. I am saying that you want to have a look with the Civil Service as to what in each case is the best way of handling administrative tasks.

Q118 Chair: A higher degree of shared intent.

Dr Pinto-Duschinsky: If I were a Minister and had to deal with passports, I would say, "Tell me how it works. What are your problems?" or, with hospitals, "What are the problems you have with emergencies?" or whatever, and try to look administratively at that which needs to be looked at administratively and politically at those things that need to be looked at politically.

Q119 Kelvin Hopkins: The chairs of these bodies are obviously very significant people and it is very important to have the right people, and yet we have seen recently some pretty disastrous problems. Mr Caplin, who was chair of the Public Works Loan Board, turned out to be highly politicised, very much a friend of the Prime Minister, but also a man who had been bankrupted.

Dr Pinto-Duschinsky: Was he not appointed by both parties?

Q120 Kelvin Hopkins: Indeed.

Dr Pinto-Duschinsky: In that sense, it is less a political question than one of public conduct and rules about informing the people who are appointed about their responsibilities. I think that was a technical error that he and the machine should have known more carefully.

Q121 Kelvin Hopkins: This Committee has been involved in pre-appointment hearings, and I think we have made some pretty good decisions in recent times. Would we not overcome some of these problems if there were more pre-appointment hearings by parliamentary bodies?

Jonathan Isaby: Absolutely. Pre-appointment hearings are a very sensible innovation. These people are in charge of bodies with huge budgets; they are not able to go to the Dispatch Box downstairs and take questions on the Floor of the House, but they should jolly well be called before the relevant departmental Select Committee on a regular basis to be called to account for how they are spending significant amounts of taxpayers' money.

Q122 Kelvin Hopkins: This would clip the wings of Prime Ministers to some extent. They would not have the same power to appoint the people they want.

Jonathan Isaby: That is not necessarily a bad thing, although at the same time I would argue that some of these bodies should be brought back within the remit of Departments so you have more direct ministerial accountability for a lot of this stuff where you do not necessarily need to have an outside body.

Q123 Kelvin Hopkins: That brings me to some points I wanted to make earlier. First, is it not a myth that somehow Government Departments cannot do these things and therefore they have to be farmed out? Secondly, there is a problem of political independence. We have seen bodies like HMRC behaving appallingly. Dave Hartnett, who was Permanent Secretary for Tax, was cosyng up to the corporates and, as soon as he left his job, he finished up as tax adviser to them. That is disgraceful. If we had public appointment hearings for those sorts of jobs in Parliament, we might get more public accountability. Is that not fair?

Jonathan Isaby: Yes, definitely.

Q124 Chair: There is a bit of a conundrum here, is there not? On the one hand, you want the Minister to have more power to appoint the people he wants, but then you want Parliament to second guess the Minister's recommendation and perhaps overturn it. How can you have it both ways?

Jonathan Isaby: I am trying to find a happy medium where you have lines of accountability in place.

Q125 Chair: I agree that is important. How about all the unregulated appointments? Mr Caplin's appointment was not regulated by the Commissioner for Public Appointments and not subject to a pre-appointment hearing. How likely is it that one of the causes of the technical mistake of failing to find out he was a bankrupt can be attributed to that?

Dr Pinto-Duschinsky: One must separate problems and be clear what one is dealing with. There are problems of conduct.

Q126 Chair: You have made that point. This was an unregulated appointment. If this had been a regulated appointment—

Dr Pinto-Duschinsky: But you still have—

Q127 Chair: Excuse me; I am the Chair. If this had been a regulated appointment, how likely is it that the Commissioner for Public Appointments would have missed the fact that Mr Caplin had been declared a bankrupt?

Dr Pinto-Duschinsky: I do not think that was the crucial factor. The crucial factor is in rules of conduct.

Q128 Chair: But who enforces the rules of conduct? If you leave it to a Minister in the Department where he is able to exercise personal discretion, is it not more likely that in his very hard-pressed role he will miss the fact that these kinds of details need to be picked up?

Dr Pinto-Duschinsky: We have rules of conduct that are too loose.

Q129 Chair: How do you tighten up rules of conduct?

Dr Pinto-Duschinsky: We tighten them up by having a firmer regulation of the post-retirement employment of civil servants, Ministers and others.

Q130 Chair: But that has got nothing to do with Mr Caplin's case.

Dr Pinto-Duschinsky: In general terms, our rules are too loose because there is a kind of cosy aspect we do not want to regulate enough. We just need firmer regulators.

Q131 Chair: It sounds like you support bringing all these unregulated appointments under the regulation of the Commissioner for Public Appointments. Have I misunderstood you?

Dr Pinto-Duschinsky: Yes. It is not the appointments; it is the rules of conduct, which are something else.

Q132 Chair: But who enforces the rules?

Dr Pinto-Duschinsky: It must be a body set up to enforce rules of conduct.

Chair: Like the Commissioner for Public Appointments, for example.

Q133 Mrs Gillan: Where appointments are made to a body that is spending a very large sum of taxpayers' money, should they always come through the Commissioner for Public Appointments and there should be a level set?

Jonathan Isaby: Like HS2 Ltd perchance?

Q134 Mrs Gillan: HS2 Ltd did not cross my lips; you brought it up yourself, but yes.

Jonathan Isaby: There needs to be far more checking and accountability of people who are spending taxpayers' money in very large amounts.

Q135 Mrs Gillan: What would you suggest?

Jonathan Isaby: I have not formulated a specific structure, so I cannot off the cuff provide you with one, but suffice it to say the current system does not provide enough checks and balances on that and accountability for those individuals.

Chair: We must move on. Thank you very much. We are most grateful to both of you for your evidence.

Witness: **Rob Whiteman**, Chief Executive, Chartered Institute of Public Finance and Accountancy, and former Chief Executive of the United Kingdom Border Agency, gave evidence.

Q136 Chair: Welcome to our next witness. Please could you identify yourself for the record?

Rob Whiteman: I am Rob Whiteman, chief executive of the Chartered Institute of Public Finance and Accountancy—CIPFA—which is an accountancy body specialising in public finance and governance. My previous roles include a London borough chief executive as well as chief executive of the UK Border Agency at the Home Office. My non-executive roles include four years as a board member of the Department of Energy and Climate Change, where I chaired the audit committee, and at present I am a non-executive at the Whittington NHS Trust where I also chair the audit committee.

Q137 Chair: Thank you for your extensive public service. We are interested primarily in the UK Border Agency as a case study in our inquiry about quangos and accountability. We have got only half an hour, so I would be grateful if we could keep this as concise and quick as possible. The Border and Immigration Agency was originally established out of the Immigration and Nationality Directorate.

Rob Whiteman: IND.

Q138 Chair: It was given full executive agency status in 2009. You were appointed in 2011 by I presume the Home Secretary, Teresa May. Mr Brodie Clark, who reported to you, was suspended for authorising the relaxation of border checks without ministerial approval, and you corroborated that that was the case. The Border Force was separated out from UKBA and reintegrated back into the Home Office, and in 2013 the UKBA was abolished—against your wishes I imagine—as an executive agency, and the current situation is that all these functions are now carried out within the Home Office. Can you give us your take on why the UKBA went through such a cycle of going out of and then back into the Home Office? Why do you think Ministers do this?

Rob Whiteman: I think the issue being grappled with is: how do you create an organisation that has enough operational capacity and perhaps independence to be able to set the right management culture, sort out its IT, have the right processes and deal with seasonal variations in workload versus ministerial accountability where Parliament and the public hold Ministers to account? What is being grappled with are these two issues.

The UKBA was by any standards a very large agency. In effect, it got abolished in three stages. At the first stage, policy was taken out of the agency. Remember that in its original form, after customs was transferred into what was BIA to become UKBA, it also included policy. The first stage in July 2011 was to repatriate policy to the Home Office.

Q139 Chair: I appreciate that you are giving me an account of what happened. I am really interested in: why all this change? Why do Ministers do this structural change, constantly it seems?

Rob Whiteman: I think because the underlying issues remain. I did not see anything in the Home Office or UKBA that was atypical for other delivery organisations. To answer your earlier point, I think it was right to abolish the agency. It had become overwhelmed by its workload, and the story was the agency rather than the work it was conducting.

I think there are other issues at play. Organisational structure is one of several issues. There is also the issue of the role of Ministers and civil servants; how best senior civil servants are appointed; how you get the right culture; and how you get the right process improvement through Civil Service reform. I think there is a lot of focus on structure. You are right that over the years UKBA has been restructured many times, perhaps because of some of the underlying issues of why government does not always do big operations and delivery very well. They persist because of several other reasons, such as Civil Service reform culture and the problems of programme management. I think you have to look at structure in the round. If you sort out the right structure and what an executive agency or a Department of State should do, other issues need to be addressed as well.

Q140 Chair: What are those other issues?

Rob Whiteman: On the first point, organisations need to have a strategy for improving that will take several years.

Q141 Chair: Improving what?

Rob Whiteman: Improving their performance, capacity, management and procedures. I think that takes several years, and it is a medium-term endeavour. Organisations are turned round in the medium term. There can be a huge focus in government on policy, so, first, we should all reflect that the Civil Service needs to have a strategy for improvement, and an organisational strategy is different from implementing policy.

Secondly, the management of finance, which is a key driver to improve organisational delivery, is quite short term in nature. The Treasury is a brilliantly effective ministry of economics, but perhaps a less effective ministry of finance. I am a former local authority director of finance and chief executive. One of the reasons local government has made such significant savings without frontline delivery falling over is that it has the space and capacity to plan its finances in the medium term in a way that I certainly did not have as an accounting officer, or is not enjoyed by Departments. I think that better medium-term financial management is needed.

I also think that the role of Ministers and civil servants is important. Is Northcote-Trevelyan fit for purpose in the modern age? On the one hand, we cherish the fact that senior civil servants are appointed independently and will serve any government of the day. On the other hand, if Ministers do not have confidence in, or have not appointed, the person in charge, will they work around the Department rather than through it?

Q142 Chair: How do you explain that the Home Secretary, who appointed you, abolished you in favour of Northcote-Trevelyan-appointed civil servants whom she does not appoint?

Rob Whiteman: Because I was appointed at a time when we thought the agency could improve and helped to abolish it.

Q143 Chair: Why in your view did the Home Secretary abolish the UKBA?

Rob Whiteman: I think it was abolished because it was overwhelmed by its workload. It was such a big agency.

Q144 Chair: Why did she think these problems would become more manageable by abolishing this vestige of independence called executive agency status?

Rob Whiteman: I am sure the Home Secretary can speak for herself better than I can, but I think she would say that by breaking it into border, immigration decision-making and enforcement organisations each of them had a better chance of succeeding than being part of a larger group.

Q145 Chair: But she did not create three executive agencies; she brought them into the Department.

Rob Whiteman: Because of a very strong view that being at arm's length as an executive agency was part of the problem, where Ministers felt they wanted to be more accountable for it.

Q146 Chair: Why was that a problem?

Rob Whiteman: I think immigration is such a highly charged issue that putting it at arm's length into an agency is never quite going to work.

Q147 Chair: Why not?

Rob Whiteman: Because there will always be an interplay between the operations and policy that drives them.

Q148 Chair: It was a relationship problem between the people doing policy and those doing operations. The relationship was not right.

Rob Whiteman: If you are going to set up arm's length agencies, they should be for discrete areas of operation that probably do not go through much policy change. Therefore, you can get the benefits of setting up something at arm's length with operations. If something is going to be very much in the news and always on Ministers' desks in terms of policy and operation, it seems sensible, as perhaps happened with Jobcentre Plus, to take the operation into the Department, because Ministers will end up being accountable for it anyway.

Q149 Chair: It is very interesting, because the witness who sat there just before you, Dr Pinto-Duschinsky, said precisely the opposite. He said the Department should do the policy and other people should do the implementation, but you are saying they cannot be separated.

Rob Whiteman: In the present form, I think that is right. If we were ever going to change that, it would need a much more radical reform. You will be aware from your research of the New Zealand system, for example, where chief executives are appointed, give independent advice on finance and risk and have a performance contract with government. If you are going to go the whole hog, you have to go the whole hog. With our system at the moment, on the whole agencies such as UKBA are better in the departments of state

being managed by Ministers, unless we change the system where Ministers are accountable for everything, such as the New Zealand system.

Q150 Chair: What you are saying is that where there is a separate agency there needs to be a contractual relationship that is much more transparent, and then the delegation would work.

Rob Whiteman: Yes.

Q151 Chair: It is interesting that at one point the Home Affairs Select Committee said that before you were abolished you were not actually an executive agency. You did not have any formal status as an executive agency; you were just called an executive agency. What did you think of that?

Rob Whiteman: To some extent, I think that is the case.

Q152 Chair: So there is confusion about what “executive agency” means.

Rob Whiteman: Formerly, we were an executive agency. I was an accounting officer for a £1.8 billion budget.

Q153 Chair: Was that in statute?

Rob Whiteman: Yes, but by nature the HQ of the agency operated within the Home Office.

Q154 Chair: I do not think it was in statute; it was an informal arrangement.

Rob Whiteman: I am very sorry. It was not by statute; it was within the Home Office purview both to set it up and abolish it as an agency. It required regulation to be laid, not primary legislation, to abolish it as an agency.

Q155 Chair: In fact it was a misnomer.

Rob Whiteman: Yes.

Chair: That is interesting.

Q156 Lindsay Roy: If it was never going to work, why did you accept the job? More importantly, what would you do differently if you had your time over again as CEO?

Rob Whiteman: I accepted the job because I was quite excited by the fact that it was an organisation in need of turn around and improvement. I have spent my career doing that, so I accepted the job and enjoyed it while I was doing it.

What would I do differently? Probably, at inception I would have reached an earlier view that the organisation was too big and in need of breaking into smaller pieces. Like any new chief executive, I wanted to create a top team, turn it around and improve it, but the experience of somebody coming into Whitehall to do that is that the profile the agency received—the constant attention in the media—overwhelmed it, to the degree that the senior management team could not get on with improving the work of the agency because the agency was the story. Sadly, on reflection I would have taken the view earlier that

what was needed in order to get on with the work needed in our immigration and border system was real work.

Q157 Lindsay Roy: Are you saying there were too many barriers to change and you did not have enough assistance to bring that cultural change about?

Rob Whiteman: I think that is a bigger issue than the Home Office. The issue is one of cultural change within the Civil Service. The Civil Service has many strengths. There are many brilliant people who are great at giving policy advice. On the whole, there is not a delivery culture, and delivery expertise probably plays second fiddle in people's careers. I saw lots of very good people in the Civil Service. I am afraid they will not make the senior Civil Service because that tends to conform to a certain picture. I think bringing through people with operational experience to create an operational and management culture is the bigger constraint to delivery than the structural changes that we may be discussing. There are deep-seated cultural issues.

Q158 Lindsay Roy: What attempts did you make to change the culture?

Rob Whiteman: We did a number of things. First, we had an extensive engagement exercise with staff. We carried out 23 viewpoint sessions in the UK with our 16,000 staff and carried out 20-odd overseas. Remember the Border Agency operates in a number of countries through the visa service. We attempted to do what you would do in any normal organisation to set up a strategy: what are the things that we need to improve? How are we going to improve our IT, our processes, our customer experience? What are the capacity gaps? What sort of skills do we need to have in order to be able to achieve that? What is the journey for achieving that over the next few years? We sold that to all staff, to get their feedback and engagement, and asked for their ideas on how to make the improvement. That sort of delivery agenda of involving staff, and listening to users and customers about what is wrong with service delivery, is the way that you turn around big operational organisation.

Q159 Lindsay Roy: What were the gains in the time that you were CEO and how did you monitor and evaluate the changes you tried to put in place?

Rob Whiteman: The gains we made in my time were to bring down some of the backlog, so, Chair, you will remember the Home Affairs Select Committee and Mr Vaz had considerable concerns about the controlled archive, which was a caseload of over 100,000 old asylum cases dating back to the legacy. We closed that down; we got through it over a six-month period.

We began to tackle other backlogs, but given the scale of the agency, there was a comment that my predecessor once made: just as you sort out one backlog, something pops up elsewhere. This was an agency at one stage dealing with border control, visa decisions, immigration enforcement and deportation—a huge range of operations at one stage involving 25,000 staff. The problem of one organisation trying to grapple with each of those issues was too great.

Q160 Lindsay Roy: Where did the prime accountability lie?

Rob Whiteman: I think accountability rested with Ministers. One of my reflections is that I do not think Ministers, in fairness to Ministers, can be accountable for everything. I think that many operational decisions do not genuinely involve them, and we have got a position at the moment where Ministers are held to blame for everything in a way that I do not think they are responsible for. I think that Ministers set policy and direction. My personal view is that Ministers should probably have greater freedom to appoint people to run organisations whom they have confidence in and can work with, and that Ministers can be held to account for whether or not they make the right appointment. I do not think it is as clear as that at the moment.

My other reflection is, interestingly, as a local authority chief executive it was almost the reverse. I was appointed by politicians; I was appointed by full council, so I was appointed by the administration and all councillors, but once appointed I served all members, and the expectation was that I would provide transparent information upon request. I did not only work for the administration of the day, even though, in effect, they had appointed me; I had a duty to serve all councillors.

I do not think local government is perfect by any means, but there is something to learn in our system where working solely under privileged information, and only working for the Administration of the day, perhaps means that there is not as much transparency about options appraisal at policy initiation and delivery initiation. There is that wonderful book by Professors Crewe and King, *The Blunders of Our Governments*. I think the problem is pre-delivery; perhaps when we look at what it is we are going to deliver there is not enough independent scoring of finance and risk and transparency about that.

On the whole, while I would move towards Ministers being able to appoint someone they have got confidence in, the person they appoint should have duties to be more transparent to Parliament. As a local authority chief executive, my advice to councillors was written on the face of a report and was made public, and we could borrow some of the transparency from other systems, such as New Zealand, in order that there is greater challenge at the beginning about “is this the right thing to do?” I felt a real tension; as an accounting officer, Ministers are accountable for everything other than the money, but the money is the most important bit.

I think when I appeared before Select Committees it was assumed that these were my answers and my views, but, of course, they are not; I am speaking for the Government and I am speaking for Ministers. When we reply to Parliament—and, again, this is not a Home Office issue but a broader thing—when we reply to Select Committees and answer their questions in writing, this usually gets clearance through Ministers. On the whole, I think we need greater transparency in the advice that is given in order to avoid bad decisions at initiation, and that would help to create a delivery culture where, because it is clearer at the beginning what the contract is with the organisation in order to deliver, they can then get on and have the space to do it. It is clear what the Minister’s accountability is, and it is clear what the CEO’s accountability is. For me, that is a little bit of a mush at the moment, where I do not think it is as crystal clear as it should be.

Q161 Lindsay Roy: What was your accountability, apart from being the chief finance officer? Surely it was for delivery?

Rob Whiteman: At UKBA? Yes, formally my accountability was to the Minister and the Home Secretary for delivery, and to Parliament for the money, as an accounting officer.

Q162 Lindsay Roy: What went wrong?

Rob Whiteman: Not enough went right, I would say. The scale of it was too great for one organisation to sort out in a fairly limited timescale.

Q163 Mrs Gillan: Just briefly, Mr Whiteman, I hear that you are saying there should be more transparency in the advice that is given to Ministers. Is there not a natural tension there, because is it not true to say that Ministers argue that they need a safe space in which officials can give them advice that is not part of the public domain? Would you disagree with that? Would you say that that relationship is full of tension therefore between the Minister and the agency?

Rob Whiteman: It is full of tension. I do not think the tension goes away; it is a question of balance for me. In terms of good governance, the person running the Department, the Chief Executive Officer or the Permanent Secretary in our jargon, is also the accounting officer, and I am not sure about that. Would it be better that the person running the Department is appointed by Ministers, perhaps including confirmatory hearings; that they have confidence in that person to run the Department; and that that person can get on and deliver contractually what Ministers have asked for, perhaps on a fixed-term basis?

On the other hand, the role of the accounting officer in many organisations will not be the CEO; it will be a CFO—a Chief Financial Officer. Not all Home Office Boards have a qualified accountant at DG level; many do, but not all. Perhaps you strengthen the role of the CFO in order that their advice on the risks and the costs of the options is more transparent, in order that that transparency would drive a better decision. That is an issue of balance. I do not dispute your point that Ministers need to have a safe space, but my point is perhaps the space is too safe and that there is not enough challenge about “is this the best way forward?”

Q164 Mrs Gillan: I presume that means that the risks are not aired and therefore the risks are greater, because of their concealment.

Rob Whiteman: Yes, and I think it is better for those risks to be aired and then Ministers could say, “There is a bit of risk here, but we are going to take the risks, because we think the goals are so good.” Once the announcement is made, it is as if inexorably this was the only thing one could possibly do—it was the only option—and I do not think there is quite enough transparency about “there were other options and there were risks”. If we could have better decisions at initiation, what then flows could be a better system.

Q165 Chair: This is all absolutely fascinating. One of our next two witnesses has not arrived yet, so we have a few more moments, and I just wanted to probe around this. First of all on this question of accountability, it sounds as though, as a chief executive of a quango, you are in something of a muddle, because you are accountable to the Secretary of State for policy and delivery, but you are also directly accountable to Parliament as a Chief Financial Officer. You are suggesting that you resolve that tension by separating the roles formally.

Rob Whiteman: Yes.

Q166 Chair: So every major public body would have a separate accounting officer who reports separately with more independence and autonomy.

Rob Whiteman: Yes, and I think the risk and options appraisal about big programmes and decisions would be more transparent.

Q167 Chair: That would lead to more scrutiny of the ministerial decision and their direction.

Rob Whiteman: Yes.

Q168 Chair: Even accounting officers are covered by the Osmotherly Rules and the Armstrong Memorandum, and have to say what the Minister approves is being said, but there is a difference in that direct accountability.

Secondly, there is an oxymoron in what you are explaining to us, because you said that UKBA was too big, too cumbersome and too complex, and yet its functions have been absorbed into an even bigger organisation, called the Home Office, which is now managing all those things under the single umbrella of the Home Office. Why could you not separate these three functions and manage them separately? I do not understand: do you see the conflict in what you have said? It has been absorbed into a bigger organisation and you say that works, whereas it did not work before.

Rob Whiteman: I am saying it does not work on its own.

Q169 Chair: That was not the problem, was it?

Rob Whiteman: Overall, I am saying you have to go one way or the other. If you are going to set up executive agencies, there needs to be clarity about accountabilities, and you would have greater freedom than Treasury rules allow about the way that you profile money over the medium term. You would have greater freedom about the hiring and firing of people. We do not have anything like that, because the other constraints that need to be dealt with by Civil Service reform mean that, in effect, it is more transparent just to take it into the Home Office, because you are not really, as an agency Chief Executive, operating in this arm's length way. Ministers are going to be held to account for it anyway, because we have not really sorted out what Ministers and senior officials are accountable for. I think taking it into the Home Office is right. Sorry, Chair; I interrupt.

Q170 Chair: I will come to that, but you are talking about what we term as "migratory accountability". The Minister seems to want to transfer the accountability out of the Department, but it migrates back in again, because there is no formal mechanism to delegate that accountability; it cannot be delegated. In a crisis particularly it always comes back to the Secretary of State, so to that extent setting up an arm's length body does not solve the problem.

Rob Whiteman: No.

Q171 Chair: It is not about size, is it?

Rob Whiteman: No. It is about the nature of the freedom you are giving an arm's length body. If you are not going to have separate freedom and accountability, there is no benefit from it, and so you may as well have it in the Department. I think for UK Government as a whole a discussion needs to be had about the role of a Department of State. If it is going to do its own delivery, how does it build capacity to do so and deal with all these issues that I have mentioned: how you build management culture, frontline experience, etc? If you are going to put it in arm's length organisations, how do you set the accountabilities such that clearly he or she appointed as the CEO can get on and do it? We have a bit of a mush, where structural ping-pong does not necessarily sort out the long-term issues.

Q172 Chair: Yes, we can shorthand that. I will come to Mr Hopkins in a minute, but the other interesting thing you said was that you set a strategy and you decided on the financial priorities, but this did not work. You talked about deep-seated cultural issues, which I presume affect the Home Office and not just UKBA, as it was?

Rob Whiteman: Yes.

Q173 Chair: What are these deep-seated cultural issues?

Rob Whiteman: For the Civil Service as a whole—and this includes the Home Office and it includes UKBA—it is creating a management culture.

Q174 Chair: What is a management culture?

Rob Whiteman: A management culture is about having the capacity and skills to set an organisational strategy.

Q175 Chair: Leadership?

Rob Whiteman: Leadership. That organisational strategy must have the components of what a good organisation needs in terms of the right leadership, the right people, the right processes and the right internal governance. On the whole, the Civil Service has many skills, but it does not have inherent within it, at senior level, the experience of running large, complex organisations. It tends, Chairman, to bring in people with delivery experience.

Q176 Chair: Then subjects you to the same problems as they subjected themselves?

Rob Whiteman: Yes. I saw lots of civil servants in truth who, outside of the Civil Service, I would very happily appoint to more senior roles. There is quite a lot of delivery expertise.

Q177 Chair: You are not being very specific about what the culture is: what is it in the culture or the behaviours, or the habits, or the attitudes?

Rob Whiteman: The culture is quite short term in nature, so we have a culture where, because of the 24-hour news cycle, on the whole there is a huge amount of focus on the short term.

Q178 Chair: Why do civil servants not feel accountable for the long term?

Rob Whiteman: Because their turnover tends to be quite high. It is interesting at the moment, because perhaps a dynamic of the Coalition Government is that, on the whole, Ministers may have been there longer than civil servants. On the whole, remember that in many organisations, in both the private and the public sector, you appoint people to roles and you probably want them to do it for three, four or five years, build a track record, get better at it and move on. Turnover is quite significant.

Q179 Chair: You have made your point. What skills does the leadership lack?

Rob Whiteman: It lacks creating organisational strategy rather than policy; policy skills are great, but it is a matter of understanding what makes a good organisation.

Q180 Chair: You had a strategy; why could you not make it work?

Rob Whiteman: Because it needed longer, and, as I said earlier, the agency was overwhelmed by the story being “UKBA is a terrible bit of Government”. I think to turn around culture in an organisation of that scale would take several years.

Q181 Chair: What is the point of a strategy, which may be brilliant, if you cannot get the people you work for to support it and you cannot get the people who work for you to support it?

Rob Whiteman: I think on the whole people did support it.

Q182 Chair: Then why did it not work?

Rob Whiteman: It needed longer. I do not think it was ever going to work, because of this problem that, when you put something right, something else will bob up elsewhere. Where over a medium-term period you have to build the capacity to be able to move what is, in effect, a group exercise together, that was not going to happen. It was the right thing to break it into smaller pieces, because the staff and the managers can now get on with trying to put things right, rather than having to deal with the fact that the agency had gone beyond the last chance saloon in the eyes of the court of public opinion.

Q183 Kelvin Hopkins: I represent a constituency with a large migrant population. I have also had a relative who has worked at Croydon in immigration, so I have seen these things. I have two conclusions with which I do not know if you would agree. Would you agree that there has been over the years a consistent failure to provide the resources to do the job properly?

Rob Whiteman: There is enough resource in there; I am not sure it is used in the right way. The point I made earlier is that you can reduce expenditure on public services and improve performance, but only if you have got the ability to plan for the medium term. As a local authority chief executive, I could underspend this year, reserve some money, spend it next year, and invest for the medium term. Cuts tend to be quite short term in nature and therefore damage frontline delivery.

Q184 Kelvin Hopkins: There was a 100,00 backlog on asylum seekers, and basically you gave an amnesty, or the Government gave an amnesty; that is how it was overcome. The other thing is policy: Government policy has been inadequate. Would you not agree? I will give you one example. I have seen these dubious educational establishments, private ones,

with grandiose titles—“international economic college” or whatever—which are simply fronts for student visas. Is that not the case?

Rob Whiteman: I must point out I do not speak for the Home Office anymore. Considerable work has happened to close those colleges down. I do not know what the latest figures are, but certainly up until the time I left the Home Office it had taken away the licence of over 400 organisations that were operating as bogus fronts for student visas, rather than being good places of education. I am sure that work is continuing and I am sure that, if you can let the Home Office know the institution you have got concerns about, they would be delighted to look at it.

Q185 Kelvin Hopkins: Over the last two decades we have seen our population increase substantially as a result of migration, setting aside the daftness of free movement in the European Union. Vast numbers of people have come to Britain because the immigration service is inadequate to cope with the problem. It is partly to do with Government policy and partly to do with the resource. Is that not the case?

Rob Whiteman: Immigration policy over recent years, both for the end of the last Government and the present Government, has clearly tightened up compared with a decade ago. I think successive Governments have wanted to tighten immigration policy, and certainly the Home Secretary has really worked very hard to tighten policy. I am not trying to give you an accountant’s answer here, even though I am one, but I think there is not enough money if cuts are short term in nature and they are only being used to balance this year’s books.

That is perhaps a trait of all Government Departments, rather than the best practice from other parts of the public sector, which is that you create a medium-term horizon and sometimes you will spend a bit of money on some additional capacity in order to create productivity and efficiency savings down the line. There is enough money if we go about efficiency measures in a very robust medium-term way.

Q186 Kelvin Hopkins: A very quick question: the fact is that immigration is now a major political issue; is it not right that Ministers have direct responsibility and can be questioned in Parliament about the issues that have arisen?

Rob Whiteman: Yes, I think it is. Immigration is such a large public concern, you cannot imagine a situation where Ministers would not want to be directly accountable, which is why the Home Secretary abolished the agency—because of that feeling that she should be more directly accountable.

Q187 Mrs Gillan: Just to be clear: you think that Ministers are more accountable and have more control now that the agency is abolished and it is inside the Home Office.

Rob Whiteman: Yes, I do, but in itself there are some other issues that need to be addressed as well.

Q188 Chair: Thank you very much indeed; it has been slightly intensive for you, but very interesting for us. Thank you very much.

Rob Whiteman: Thank you very much indeed; it is nice to see you all.

Witnesses: **Rt Hon Caroline Spelman MP**, former Secretary of State, and **Rt Hon John Redwood MP**, former Secretary of State, gave evidence.

Q189 Chair: We are waiting also for Caroline Spelman, but I do not think we should wait any longer. I am right to be reminded that she is temporarily disabled, because she has broken her arm. I am sure she will be with us in due course. I wonder if you could identify yourself for the record please.

Mr Redwood: Yes, Mr Chairman. I am John Redwood. I am a Member of Parliament, and I am a former Minister who, in my time as a Minister in the DTI, the Environment and Local Government Department and the Welsh Office, had experience of handling a number of quangos.

Q190 Chair: In very general terms, what are the tests that the Government should set itself before it sets up a new arm's length body?

Mr Redwood: One of the myths is that these bodies can be truly independent. Where they are handling matters of public controversy and of importance to the Government we have to grasp that they will never be truly independent, and that the Secretary of State, as you memorably said a few minutes ago, remains ultimately responsible. In the 1980s, when it was fashionable to set up quite a lot of so-called independent bodies, there was a doctrine at the time that civil servants were much better at offering policy advice and general administration, and were not very interested in, or very good at, running things. It was felt that if we put some of the functions of Government into so-called independent bodies with a chief executive, the Civil Service could be co-opted into these bodies and they would get experience of running things with more focus, which would then be good for their future careers and would mean they were better run.

I think it is possible to do this in two particular respects; above all, there can be a case for a so-called independent regulator. The regulator can be independent in all or most individual cases, and that may be very good for the Minister, who may not wish to be involved in individual cases or may have potential conflict, but the Minister will be responsible for the policy, tone and general direction and may get dragged into the most sensational cases. It is also possible to identify some functions of Government where there is a lot of processing and customer-facing activity involved, where there may be a merit in providing focus. The quango or independent body provides focus, and it makes people realise it is a largely discrete activity or function and it may be easier to assess it, monitor it and control it by having a so-called independent body under a Minister, with clear aims and performance requirements.

There is a case for it, but, like everything in human life, it only works if you choose good people, and it only works if it has the good fortune not to hit a very big controversy that drags it all back into the political arena.

Q191 Chair: When you were Welsh Secretary you were responsible for a number of bodies. How did you manage them?

Mr Redwood: Throughout my ministerial career I spent quite a bit of my time managing so-called independent bodies, and I always took the view that they were my or my

colleagues' responsibility. I always took the view that they were doing important functions and that therefore it was in my interest, and the wider public interest, that I should regard myself as their overseer, and that I would report honestly and regularly to Parliament, so that Parliament too could be part of that scrutiny process. I felt as Minister I was the first line of parliamentary and customer scrutiny of what the body was doing and how the money was being spent.

What did that mean in more detailed terms? It meant that I would certainly play an active role in the settling of the budget of the independent body. I would play an active role in the annual review and annual report, and I would have periodic meetings—more regular where the body was very important or where I was worried about its management or direction—to see that it was fulfilling ministerial and parliamentary approved aims, that it was hitting sensible targets, and that it was being managed well.

I came to this process of being a Minister from running a large industrial company, and I naturally was very interested in the managerial side of it all. When I first got into the public sector I felt there was a lot I could impart from my private-sector experience that might improve the value for money and the performance of these bodies, because some of the obvious things you could do in terms of motivating, promoting and encouraging people, and in terms of putting in quality systems, had not been done. Sometimes the independent body with a separate chief executive was an easier way of breaking into this conundrum, because it met my criterion of focus; it meant there was a piece of work that was relatively straightforward to run, in a manner that the private sector could regard as good, without having to get into arguments with the main core of the Civil Service.

Q192 Chair: There was increased accountability by the creation of a more transparent arm's length relationship?

Mr Redwood: There could be, yes. If you have an active Minister, the Minister can use the focus of the body to drive better results, but the danger in my world is if the Minister buys into the theory of independence. If you take a recent case, the Environment Agency, it was quite wrong to suppose that the highly important, sensitive work and big budgets that the Environment Agency runs related to flooding could be truly independent of Government. It is a clear area where the present Secretary of State has rightly taken a strong individual interest, because it is a focus of public concern, it is a very big budget, it is very important to what the Government does, and it reminds us how important it is that the Minister engages with the so-called independent body.

Q193 Chair: Our other witness has now arrived, and I welcome you. Could I ask you to identify yourself for the record?

Mrs Spelman: I apologise for being a few minutes late. I have just come from giving evidence in the Lords end, and unfortunately took a convoluted route to get here. Caroline Spelman, former Secretary of State at Defra. I am looking forward to giving evidence to the Public Administration Committee.

Q194 Chair: Thank you very much indeed. Can I just ask you the same questions I have just asked Mr Redwood? First of all, in your view, what are the right criteria that would encourage you, as a Minister, to establish an arm's length body?

Mrs Spelman: Well, I come at this from the fact that I had to get rid of a lot of arm's length bodies, so I had to apply criteria as to which ones we should let go or wind up. When I arrived at Defra there were just over 90 arm's length bodies under the wing of that Department, and the Cabinet Office wanted the numbers of arm's length bodies in each Department to be reduced by 50%. I reduced the number of arm's length bodies to 36 at Defra during my time.

One of the main reasons for retaining the last few was their regulatory role. A regulator has to be at arm's length from Government. In terms of regulators, Defra has, for example, Ofwat; the Environment Agency, which has a regulatory role; Natural England; the Forestry Commission, which regulates the timber market; and so on. The regulatory role was one of the main reasons for retaining those residual arm's length bodies.

Q195 Chair: We will come back to the Environment Agency; I promise we will get the opportunity to do that. Generally, how did you personally, as a Minister, manage your relationship with the public bodies that you retained?

Mrs Spelman: John is right in that you still have to accept at the helm of a Department that, when one of the public bodies under your wing messes up, you will, as the Secretary of State, have to take some responsibility for what has happened. You cannot just blame others running public bodies without also facing the questioning yourself about what role you played in the relationship that you had with the people running those arm's length bodies.

The straight answer is there is a six-monthly review process with the Chairman and Chief Executive of all those arm's length bodies. The business plans of those arm's length bodies are rated green, amber or red, according to whether they are on or off track with the things that they have committed to deliver for the Government of the day. Their business plan obviously is talked through with the Government of the day, so that it reflects what the Government of the day has set out in its manifesto, or, indeed, in this case the Coalition Agreement, as to what the focus of that arm's length body's activity should be.

They are at arm's length for day-to-day management; they certainly need to be at arm's length for their regulatory function, but there is also close working between the Secretary of State and the senior management of those arm's length bodies, to make sure that they are delivering what they have promised to deliver.

Q196 Chair: To each of you: how important do you feel the personal relationships between those in the agency and those in the Department were as an indicator of success or failure in the delivery of that agency's objectives?

Mr Redwood: Relationships are fundamental; the Secretary of State or the sponsoring Minister acting for the Secretary of State needs to have full confidence in the Chairman and Chief Executive of the agency, and needs to have a good working relationship with them. It should not get too cosy, because the Minister has to probe, push and require better performance, and sometimes tell people they have to do well with less money than they think they need. Nor should it be too adversarial, because you need to get the best out of people and you have to be willing to go into Parliament or into the press to defend them when they have done things you would rather they had not done, so it needs to be a sensible working relationship.

There also needs to be a good working relationship between the senior officials in the relevant sponsoring part of the Department, and the senior executive team working with and for the Chief Executive, so that they day-to-day can satisfy themselves that performance is likely to be met or that there are no big issues that will warrant ministerial and parliamentary attention. The Minister needs good eyes and ears in the Department, because, as Mrs Spelman said, you may only meet them twice a year on that kind of review agenda, so you need forewarning. I would certainly have wanted and asked as a Minister for officials to give me warning if they thought something was going wrong out of review periods, so that I could put in an unannounced meeting and be on top of it and know what I had to apologise for or improve.

Mrs Spelman: Those relationships are absolutely key, and one of the difficulties when you come into Government is you inherit chairmen and chief executives in post. Whilst I am full of admiration for the Civil Service's impartiality and switching from serving one party in Government to another party in Government, a relationship of trust has to be built up with the appointees of the previous Government to those public bodies. For the most part, I found that relatively easy to achieve, but I had to do what Mr Redwood has indicated is difficult: come in and reduce their budgets by 30%. Obviously it was very difficult early on in the relationship to bring in an across-the-board 30% reduction in the running costs of the 36 remaining arm's length bodies.

I found it quite helpful to bring all the arm's length chairmen and chief executives together, so they understood that they were not being picked on. Those that were less accepting in the beginning of the need to reduce their budgets by that much realised that, across the group of arm's length bodies, the others were being asked to do exactly the same. In terms of managing those relationships, it is quite important to have the individual one-to-one, but as an arm's length body group there is some benefit in the relationships between them. Where I had weaker arm's length bodies, I got some of the stronger teams at the top of arm's length bodies doing better to mentor them, and so on. The relationships are absolutely key, and that is why the appointment of people to the top of those arm's length bodies is a really important issue.

Q197 Chair: How did you earn the trust of those people you were already managing, so that you could have confidence that they were telling you what you needed to know?

Mrs Spelman: Complete candour on my side. I thought it was important from the outset to be absolutely clear and honest about our strategic objective in our budget negotiations with the Treasury—that we needed to reduce our running costs in order to secure the best possible capital settlement.

Q198 Chair: I think the answer you have given is “complete candour”.

Mrs Spelman: Yes, complete candour.

Mr Redwood: I agree; that is one element of building trust with people. You have to show them that you are fair, and you have to show them that you will fight their corner when you think they have a good case, but you have to show them you are not a pushover; when they make demands, there are times when you have to say, “These are unrealistic.” I always found in the Government Departments I served in that the Departments had more

money and more people than they needed to do the job in my view, but they thought the Minister's role was to constantly argue for extra money and extra people at the margins to do anything new or interesting they wanted doing. I made life difficult for myself by taking on the challenge of saying, "I think you have got enough people and enough money. Let us look at where it all is at the moment, and let us see how we can use it to better effect, to more reflect the priorities of the current Minister and the current Government."

That is obviously what Mrs Spelman had to do, on a very broad scale, coming in with the Coalition when, I think quite rightly, the Coalition decided that running costs overall were excessive. That is where I found my Private Secretary experience was quite helpful, because I always felt that the overhead was far too big; it was far bigger than any similar overhead for carrying out similar functions in the private sector.

Q199 Mrs Gillan: Can I just probe that a little? Bringing in that private-sector experience is so important in many cases, but in the private sector you would have the capability of having a totally independent audit carried out on a division or an area, or a group of companies. How significant is it that, coming in as a Minister, you first of all have that tranche of chief executives there, but then you also have those civil servants that have possibly got that cosy relationship with that quango, yet you are asking your civil servants that have had that pre-existing relationship to give you an independent view as to how well their quango is doing?

Mrs Spelman: Obviously being completely new to a Department—not having shadowed it and not having been a Government Minister—by definition you are going to be quite dependent on senior civil servants' assessment of the arm's length body landscape. The civil servant knows you have got to make the judgments about which to save and which to let go. By the way, it is not just candour; the fact that I fought for the remaining 36 did help in terms of building the relationship.

I found that the assessment of the strengths and weaknesses of the respective chairmen and chief executives was pretty good, perhaps with a couple of exceptions, and I later came to understand why it was difficult. The Forestry Commission, for example, was a relatively new import to Defra. It was not very well assimilated into the arm's length body of the Defra Department, and the knowledge of the senior civil servants about the capability of the people running the organisation was not as strong as for the ones with which they had been working for a longer period of time.

Mr Redwood: You have to read a lot. One of the advantages you have trying to help run and guide the public sector is that the public sector does publish a lot of information. Inadvertently they will publish interesting information, and so you have to read a lot to try to find the bit that really matters or is important to your task of managing. I always found it extremely difficult to get the kind of management information on my desk, as the senior person, that I would expect automatically in a business. The Civil Service has many strengths and many very talented people, but making sure that the Minister has the one page of numerical and factual information on the desk that is crucial to the conduct of the half-hour or one-hour meeting is probably not one of those strengths, so you had to do it for yourself.

I found the quangos were some of the easiest, and I could brief myself very easily for a quango meeting, because I would just ask to see last year's annual report, which is a published document, and the draft report for the next year, if that was the topic of conversation, and then set about redrafting or changing, or building up the conversation I wanted to have with the person running the business. On the budget, again, you had a lot of numerical information; you often had to change it around, boil it down, or read through the figures, because they were usually presented by people who wanted the answer to be the expenditure of more money, and I wanted the answer to be a better service. A better service does not necessarily require the expenditure of more money; indeed, in some cases I think it requires the expenditure of less money, because you can get to the point where there is too much noise and too many people in the system. Again, it is about reading; it is about taking what is there and winnowing out the few things that are really important.

Mrs Spelman: Another very important thing is to talk to the customers. If you talk to the people that the arm's length bodies serve, you begin to find out for yourself how good the customers think the arm's length body is doing the job—if you talk to the farmers about the regulatory role that Natural England has, the water companies about the regulatory role that Ofwat has, or the consumer group for water. Talking to the stakeholders that have to work with your arm's length bodies gives you another perspective, different from the in-house perspective from the senior civil servants, about how well or otherwise these arm's length bodies are doing.

Q200 Chair: Mr Redwood, this sounds very much like a justification for the Next Steps agencies with which you were involved in the 1980s, and yet you seem to have rather turned against more quangos. You seem to favour now that these things should be brought back in-house.

Mr Redwood: Mr Chairman, I have not expressed a view on what is the optimum number of quangos. I have provided you with a framework that I find useful: if you can find focus, and if you can find someone to run that body to performance targets and to budgets that make sense, it may be a better way of doing it; I do not rule that out. It may be that you can achieve exactly the same effect in-house, but I do not think you can duck responsibility for the results. I have always held that view.

Q201 Chair: It is about incorporating the Next Steps agency lessons into Government Departments as well.

Mr Redwood: As well—it should be a two-way process. I entirely agree with Mrs Spelman that you should, as a Minister, talk to the customers. One way of defining an important part of the Minister's role is you run the complaints department. As soon as something goes wrong, you know you run the complaints department, because you get dozens of emails from MPs and thousands of emails from the public and campaign groups. If you are managing it well, you avoid that, because it does not get to that situation. If you are managing it badly, you get to a crisis, and the complaints department is ringing in your ears. The answer is not to have a better written answer to the complaint; the answer is to see what is going wrong with the management of the system and try to solve the underlying problem.

Q202 Mr Turner: Mrs Spelman, what was your view of the relationship between Defra and the Environment Agency in the light of winter floods?

Mrs Spelman: I know that the Committee has a strong focus on this, so let me just take you back to 2010. When I was considering the Environment Agency and whether or not it should be retained as part of the arm's length body review, it was clearly the largest arm's length body in Defra. In fact, it is the largest employer of staff, with at the time 13,500 employees—way more than the host Department. I probably coming into that Department, not having shadowed it, had a rather old-fashioned view of what the Environment Agency was really like. It was not until I started talking to the customers in 2010 that I realised that the new team at the Environment Agency had undergone quite a transition, putting the customers more in focus. I got that from the farmers and the others that the Environment Agency was interacting with.

When we had our first bad episode of flooding in 2010, I went down on the ground to see what the reaction was of the victims of the flooding to the work of the Environment Agency. They saw them as an emergency service, and were full of praise for the work they had done before the floods struck to clear the grills and grates over the water bodies, but also afterwards in terms of supporting the households that had been flooded out and, indeed, coming back well after the event to help the community become more resilient. That arose from a decision right at the top of the Environment Agency, between Lord Smith and the Chief Executive, Paul Leinster, to devolve decision-making further down within the Environment Agency and to empower their operatives on the ground to make decisions appropriate to the needs of the local community.

A shift had occurred in the culture of the Environment Agency. I saw a subsequent bad episode of flooding in 2012, when it rained almost without a break between 5 April and the end of June, which took the form of successive cloudbursts over different parts of the country. The Environment Agency, once again, deployed that devolved decision-making, which resulted in lives being saved. Wherever I went to a flood-affected community, I had exactly the same feedback: that the Environment Agency was seen as an emergency service before the flood and after the flood.

I feel that, by observation—no longer as Secretary of State—the difficulty with the prolonged period of flooding last winter was, unlike the cloudbursts, it was a protracted period of flooding in one area, and, as one opposition spokesman said to me, “There is nothing that you could build that would have stopped that happening, in truth.” I think quite a bit of scapegoating went on around that. I feel that culture change had taken place within the Environment Agency, and I had to catch up when I joined the Department to understand how the stakeholders viewed the Environment Agency after the change in the culture.

Chair: That was a very long and full answer, which was merited, but we must try to have shorter answers.

Q203 Mr Turner: Surely the view in the Somerset Levels was not that the Environment Agency had succeeded; it was, indeed, their failure in certainly 2013.

Mrs Spelman: I was not Secretary of State at the time, so all I can tell you is flood defences are built on a cost-benefit basis. The Fens of East Anglia are pumped, because of the quality of the soil, the quality of the land and the number of houses to be protected. Flood defences monies are distributed on the basis of the number of homes that will be

protected, which always makes it difficult in rural areas. At some point before my time, a decision had been made not to dredge the River Parrett—we all know that to be the case—and, for whatever reason, that is a part of the country that is low lying where historically a decision has not been made to pump the land continuously.

Q204 Mr Turner: There was pressure from local people that something should be done.

Mrs Spelman: Yes, I perfectly understand that. The opportunity exists to do something, because the Environment Agency and the Department of the Environment together came up with a different method of flood-defence funding whereby flood defences are now built on a partnership basis. If a community wants to build a barrier over the River Parrett, then, with a contribution from the local community, the Government, through the Environment Agency, can match that funding.

Once again, the cost-benefit analysis has to be undertaken. It has been done in other parts of the country, and increasingly flood defences are built more efficiently, because they are not 100% state funded. You get more realism in the cost of the project, but it does have to undergo a cost-benefit analysis, and I am sure the people who live on the Somerset Levels are actively engaged with the Environment Agency in looking at how they can develop such a flood-defence partnership.

Q205 Mr Turner: Mr Redwood, what should Parliament's role be in holding quangos to account?

Mr Redwood: Parliament must do whatever Parliament wishes; it is the duty of the Secretary of State or sponsoring Minister to make sure that Parliament is kept regularly up to date with the budgets, achievements and annual reports of these bodies.

Q206 Mr Turner: Yes, but I was asking what Parliament's role should be.

Mr Redwood: Yes, and that is exactly what I am saying: that the Minister or the Secretary of State provides the information. If all is going well, Parliament may not be very interested; if things are not going well, Parliament has every opportunity to table opposition motions, or to get a special debate, or to ask a series of questions, or to force a statement from the Minister—all the usual techniques. The Government will only offer information and debates from time to time; it is mainly the duty of the opposition, as you well know, Mr Turner, to highlight weaknesses, and there will be plenty of parliamentary opportunities. Ministers are wise to keep Parliament well informed, and good Ministers see Parliament through any difficult periods for the quangos they are sponsoring.

Q207 Mr Turner: Why is it that whenever there is a crisis it seems that an appointee gets sacked and not the Minister?

Mr Redwood: I do not think that is invariably true, but that, again, is a matter for Government and Parliament to argue out. If the public and their representatives in Parliament were to think that an executive agency had developed a mind of its own—that successive chief executives had pursued a strategy that they strongly believed in and it no longer met with either ministerial or public approval—then maybe it is right that the chief executive should go. Whereas if Parliament discovers that the chief executive has been

very reluctantly implementing a strategy that the Minister has pushed upon them, then maybe the Minister should go.

Mrs Spelman: Select Committees do a very good job in scrutinising the arm's length bodies as well. I know that the Environment Agency certainly came before the EFRA Select Committee during various periods of the usual four horsemen of the apocalypse that Defra has to deal with—flood, drought, famine and plague—fairly regularly. I think that is right, and that is a very important tool in Parliament for holding both Ministers and arm's length bodies to account; their inquiries make good reading for both sides learning lessons.

Certainly personally I had to take responsibility for what happened on forests. I made a statement to the House. It was a career-threatening moment, without a doubt. I did not blame other people; I took it entirely on my own shoulders, and we sorted out within the Department what had gone wrong. My own style of leadership is that I believe that is the right way to do it. Other people have different styles of leadership, but I learned from the private sector that, if you blame your workforce, you should not expect the productivity to be too good the following morning.

Q208 Chair: Thank you very much. Just three follow-ups, and then I will come to Mr Roy. On the EFRA Committee report out this morning, they say that too often maintenance is neglected until a need is created for a costly one-off capital investment, and that there are, and I quote, “perverse incentives to defer maintenance work”. The Secretary of State himself said that the distinction between capital and revenue funding is “a bit of a grey area in practical terms”. They recommend a total expenditure classification for flood and coastal risk management. Do you recognise these issues?

Mrs Spelman: I recognise the issues, but I tried to indicate earlier that I do not think that is a correct analysis. I am really sorry for the people of the Somerset Levels and the devastation that we saw. What happened to them arose out of an extreme weather event, but also out of a decision-making process that was not new, which looked at the use of taxpayers' money to best protect communities. A formula exists that looks for the return on investment, and the Somerset Levels communities obviously at that point had not qualified for the kind of flood-defence funding that protected them from that extreme event. It does not mean that in the future they might not be able to get a barrier built on the River Parrett by a partnership method.

Q209 Chair: That is the point, you see. In my own constituency, in East Mersea—forgive me for going for a constituency example, but I am familiar with it—the sea wall is in a state of disrepair. The agricultural land has a very high amenity value for tourism and stuff, but the indications from the Environment Agency appear to be, or at least are perceived to be, that, until the wall falls down, “We cannot do anything, because it is too expensive to repair on a revenue basis; it will be much easier to do a capital programme, when it needs to be done as a capital programme.” You do not seem to recognise this perverse incentive exists.

Mrs Spelman: There is a degree of a perverse incentive, but there is never enough money for flood defence work.

Q210 Chair: How should this perverse incentive be addressed in order to encourage the maintenance, which would avoid the need for capital?

Mrs Spelman: A proper analysis has to be undertaken of each project, and it is done on a cost-benefit basis.

Q211 Chair: It is not a project. If it is maintenance, it is not a project.

Mrs Spelman: I do not know the specific example well enough to be able to comment specifically on that example. What I do know is that flood defence schemes that previously could not get out of the blocks on a cost-benefit ratio basis, in places like Cockermouth, have now been implemented because of the change in the approach to using partnership funding to get these defences built where they need to be built. The most important thing I had to do coming into office was to reverse a 50% reduction in capital expenditure on flood defences.

Q212 Chair: You have both talked about the “blame game”. You have referred to how blame starts being thrown around. As soon as the blame starts being thrown around everything goes very negative and people become very defensive. It is not surprising that it is then more difficult to get hold of the truth and it is very difficult to learn and review failure in order to improve in the future, because people are not open. How do you think we can change the behaviour of not just Ministers but officials and others to avoid this attitude that accountability tends to be about finding someone to blame. Accountability should be about something else, should it not? Discuss.

Mr Redwood: Accountability is partly about finding someone to blame, but the positive side of accountability is finding someone to reward, encourage, mentor and support because they are doing a very good job. I am in favour of there being more responsibility in the public service. I think by private-sector standards one of the big differences is that a lot of quite senior people do not have named responsibility and have to manage their particular area for, say, five years and show they can do it before they move on to a different role.

It is only by letting people manage a role for a certain period of time and not interfering too much that you find out how good they are at managing and they learn what responsibility really means. I favour positive management much more than negative management; I am much happier rewarding, encouraging, motivating, and making people realise that what they do is important and showing them how it relates to the wider good. A lot of people are doing quite narrow things, and part of the task of management is to say, “You are crucial in delivering this better service for this disabled person,” or whatever is the final product. You also have to have that ability to say, in the end, after warning and due consideration, “I am afraid you have failed; this is not good enough and you cannot carry on at this level of remuneration in this role.” I do not think the public sector is very good at that.

Mrs Spelman: I agree, and I am of the positive school of management as well: human beings respond far better to praise and encouragement than they do to criticism and blame. As I said earlier, I think it is key in a Department to know that the person at the helm will take responsibility for what happens in that Department and that the employees can be confident that the person at the helm will fight their corner. I think, in private, that then creates an atmosphere in which people can be more open and honest about what went wrong. If you take the forests issue, after that had happened we did a proper debrief as to what had gone wrong, and certain things changed as a consequence. There were

accountability issues that had an impact, ultimately, on who took responsibility, but that was done with the security that the Secretary of State would take the consequences publicly and then deal with the outworking of that privately, in a constructive spirit.

Q213 Chair: Finally, very briefly, it was suggested in a previous session—and I think Mr Redwood heard it—that there might be a virtue in separating the leadership of an arm's length body from the accounting-officer role, so that the accounting officer is separately accountable to Parliament and it creates a separate flow of information and some challenge to the possible strategy that is being adopted, so that there is better public understanding of the risks of a particular strategy and of alternatives that might have been considered in the way that the accounting officers of Departments sometimes appear in front of Select Committees. What do you think of that idea?

Mr Redwood: I think that can be difficult, because, if you have divided reporting, it can imply a lack of confidence in the person running the Department.

Q214 Chair: We already have divided reporting: the Permanent Secretary reports to the Public Accounts Committee in an accounting role, separate from the Secretary of State, in Departments.

Mr Redwood: Yes, I understand that, but I am saying that, in a so-called independent body, where you are trying to provide focus, there is a case for saying that the boss is the boss, and the boss is responsible for reporting.

Mrs Spelman: Yes, absolutely.

Mr Redwood: The reporting has to be transparent enough and, if you think that it is not transparent enough, you make it so or you fire him or her, but I think there is a lot to be said for standing behind them and letting them control the whole organisation.

Mrs Spelman: I agree with Mr Redwood. I do not think you should split those functions because nothing focuses the mind like being chief accounting officer. That is a serious, grown-up responsibility for public finances, and I think to split the role is both bureaucratically more complicated but also undermines that real focus.

Q215 Lindsay Roy: We are meeting the Minister next month. What would be the logical next steps for the Public Bodies Reform Programme? What advice would you give us in terms of things we should be asking him?

Mrs Spelman: Are you talking about the Cabinet Office now?

Lindsay Roy: Yes.

Mrs Spelman: We have not touched on this, and I do not know if you are still going to come to it, but I do think, if I was you, I would be examining the interplay between the Cabinet Office in the management of these arm's length bodies and the host Departments, because there were a number of occasions when the relationship was quite challenging. I indicated that I needed to defend my remaining 36 arm's length bodies, and those were quite tough negotiations in what was, essentially, a numbers game. The Cabinet Office decided it wanted to reduce them by 50%, but the reality of that for the Secretary of State was a real, live issue over which bodies to keep and what role they had, and to appear

before the Cabinet Office and fight for them. I think it shows the overarching power that the Cabinet Office has to control the number of arm's length bodies, which is quite arbitrary.

Q216 Chair: What is the question we are asking him?

Mrs Spelman: Ask about their experience of the arm's-length-body cull and, in practice, their role within it, how well they feel that went, and where the decisions went well and where they did not go so well. The other area I would talk to them about is the power they have, sometimes, to overrule an appointment. I feel quite strongly about this. It is back to this issue of trust. You inherit chairmen and chief executives of your arm's length bodies, who were appointed by the previous Government. A relationship of trust has to build up. Over time, perhaps they reach the end of their two-times-three-year cycle, so they have to be replaced, or something goes wrong and they have to go, or they just step back. The opportunity exists to bring in somebody fresh, with a fresh look. Sometimes, the Cabinet Office has a view about who should fulfil that role, and the Department may have a different view as to the skillsets for that role. Talking to the Cabinet Office about the appointments into the arm's-length-body roles, and the relationship with the host Departments, would be a useful line of enquiry.

Mr Redwood: I would want to ask the Minister several things: first of all, how do they satisfy themselves that there is a clear focus and challenging performance and budget targets for each of these bodies that they think has a defined workload that merits this structure? There are some extra costs in this structure as well, with the management system deployed. Are we getting value for that? Are there more-than-offsetting gains as a result of having the structure?

I would want to ask them about their relationship with sponsor Ministers, because, if you have, again, blurred responsibility, with the Cabinet Office having some role in the management of these quangos and the sponsoring Ministries, you can end up falling between two stools, with nobody taking proper responsibility for it. Have they defined their responsibilities properly?

A third line of questioning might be whether there is any training or assistance to new Ministers who take on responsibilities for these bodies—and they are quite often given to junior Ministers—because I think not everyone takes to it naturally or has relevant experience from their other lives, so I think it would be very helpful to see what support is given to Ministers to understand the nature of the relationship and to understand the very real responsibility that still rests with the Minister.

Q217 Lindsay Roy: To sum up, it would be clarity in terms of role and criteria.

Mr Redwood: Yes—clarity, clarity, clarity, and make somebody responsible, starting with the Minister, because I quite agree that, ultimately, the Minister's head should be on the line, and he or she should know that, and then have the support necessary so that they feel their head sits happily on their shoulders.

Q218 Kelvin Hopkins: To what extent is there a problem concerning the political activity or affiliation of quango chairs? We have had the recent example of Mr Caplin from the Public

Works Loans Board, who was very close to the Prime Minister. He had also been declared bankrupt in the past. What, then, about the appointment of chairs?

Mr Redwood: I think the appointment of chairs is, as Mrs Spelman said, one of the most important things Ministers do, particularly for the large quangos that are very important to the general conduct of Government. I think we have a perfectly reasonable reporting system. I do not think you can say that anyone who has had an affiliation with a political party can never be involved in running a quango; I think that is unreasonable. I also do not think you can say that a Labour Minister should never appoint a Labour appointee, or a Conservative Minister should never appoint a Conservative appointee.

If a Labour or Conservative Minister is, however, trying to appoint somebody from their own party, there have to be independent voices around the table, as there are, from the Civil Service, and the Minister has to understand that they start from a negative, because the opposition party will always claim that this is an unreasonable appointment. Therefore, you need to do even more homework and to be absolutely satisfied that the person from your own party passes all the legitimate, independent tests. I think that is the best you can do, but I am sure there will be endless political rows about quango-chief appointments, whoever is in Government, particularly when someone has affiliations to the party in Government.

Mrs Spelman: I have an interesting counter-example. I do not know the one that you are referring to but, of course, Lord Smith was a former Labour Cabinet Minister who was appointed chairman of the Environment Agency. When I came into office, I did have to get over, in the beginning, that slight reservation around how impartial or otherwise he would be, but I am very pleased to say that, early on, he impressed me as an effective chairman of that agency. In fact, across the Defra family of arm's-length bodies, the duo of Lord Smith and Paul Leinster was seen as one of the most effective teams of chairman and chief executive, and we did bring them in to mentor some of our weaker arm's length bodies. I think your political affiliation should not preclude you from chairing a public body but, as Mr Redwood says, you have to deal with the perceptions around that.

Q219 Kelvin Hopkins: I have to say that, over the last 15 years, many more Labour-affiliated chairs have been appointed than Conservative-affiliated chairs, so I am not making a party political point. One thing that this Committee in particular has done recently is that we have been involved with pre-appointment hearings for certain chairs of quangos, and I think we have done a good job. Would it be a good idea to extend that procedure and to have more chairs go through a parliamentary process as well as being appointed by Ministers?

Mrs Spelman: I do not know. We had enough difficulty trying to get a decent shortlist of people prepared to do the job. I was quite surprised at how difficult it was to get people with the right skillset to come forward to chair these bodies. I had to send the shortlists back to the drawing board sometimes, because it was not a strong enough list or it was not gender-balanced. Be careful how many deterrents you put in to people who are prepared to do these roles.

Q220 Kelvin Hopkins: What about reappointing an existing chair? Have either of you had a situation where you have been reluctant to reappoint someone and it has been difficult to deal with?

Mrs Spelman: You have to seize that moment. If you have reasons to be reluctant to reappoint, you have some fundamental concern about the ability of the person to do that job, and you do not do the agency any favours by fudging that. As a good manager, if you are reluctant to reappoint someone for another three years, you have to face up to that problem and deal with it. You are not doing anyone any favours by brushing that under the carpet.

Q221 Kelvin Hopkins: A number of chairs—and I mention the Environment Agency and Chris Smith—have come under quite a lot of political pressure in recent times because of events. Is that going to make it harder to find people? Are people going to be more reluctant to put their names forward because they do not want to be in the middle of political controversies?

Mr Redwood: I think that is a deterrent and, as Mrs Spelman said, it is something that we in Parliament have to weigh up. I am a great advocate of parliamentary scrutiny and of Parliament doing what Parliament has to do, but I am also very conscious that, if you want high-quality managers, they are sometimes put off by too many appearances in newspapers and too many partial views of their lack of talents or whatever it may be that their critics are parading. You put talented candidates off the more you do that. There is no easy answer to that because I do not want to stop free speech in politics. On the other hand, you do want to get talent into the public services. It is easier getting talent into the public services where the public service is not contentious, and that will remain the case.

Chair: We have to bring this session to an end shortly.

Q222 Mrs Gillan: Because there is a skill shortage of talented people in certain areas, do you think it is right that, with quangos, you should be able to go outside the public-sector pay scales and pay six-figure sums to get the right people in the job, which is what appears to be the case these days?

Mrs Spelman: It is definitely an issue. When I was trying to find a strong enough field of candidates for some of these top public appointments, highly paid people in the private, and sometimes even the public, sector were reluctant to take a pay cut to come and do the job. Sometimes, by persuasion, because we were very keen to have an individual with a particular skillset, they could be prevailed on to take that pay cut to do the job for the greater good of the nation and the interests of serving at this very high level, but it definitely does put some people off—there is no question about it. We have to be mindful, however, of taxpayers' money. You will know the benchmark that no one is to exceed the Prime Minister's salary but I see, in lots of sectors, people regularly do. I think it is a bit of a deterrent.

I think, though, you glossed over "skillset" there. I think one of the interesting things arising from the flooding debacle in the South West is that perhaps there is an awareness that a different skillset is required now at the helm of the Environment Agency, particularly with the increasing frequency of extreme weather events. Maybe one of the constraints in getting a good field of candidates is we think historically of the skillset required in different times, and a willingness to refresh the job description and look at a different skillset may be an important way to draw more candidates who, previously, had not thought of a role in public service.

Q223 Chair: Very briefly, Mr Redwood, anything to add?

Mr Redwood: I agree with Mrs Spelman that, because it is a public service, we have to be aware of public reactions to different levels of remuneration, and we have to be aware that we are spending public money. I found that, as a Minister, I was so much less powerful than as the chairman of an industrial company when it came to running anything, because I did not have that power to reward or to promote, even. Being positive, there were people I thought were doing a really good job and I would have liked to have given a pay rise or have got them promoted or have got their promotion confirmed. Sometimes, I managed to get them promoted into an acting role but they did not get the grade in perpetuity.

I think, within the scales we have, a lot more is possible. You can do it by “please and thank you”—I think they are much underestimated and there are a lot of people who do buy into the whole idea of public service and the public ethos, and “please and thank you” works extremely well, but I still think that the bonus, the promotion or the rise within the salary scales could be more used.

Q224 Chair: Even Permanent Secretaries do not seem to have that flexibility, so they cannot even exercise that flexibility and that kind of leadership on behalf of Ministers.

Mr Redwood: No, and I tried to do it through the Permanent Secretary, usually, because of the formality.

Mrs Spelman: That is another one for the Cabinet Office, by the way, because the Cabinet Office has a blanket block on bonuses. After that severe three-month period of flooding, when the Environment Agency’s operatives—the emergency frontline staff—worked without a break moving from flooding in Chichester to flooding in Gateshead to flooding in East Devon, flat out for that period, quite understandably the management of that agency wanted to reward those people for their supreme effort by paying them a bonus. That was forbidden right across the board, and that is really frustrating.

Chair: A very useful bit of evidence—thank you very much for that. A very important bit of evidence. Mr Turner?

Q225 Mr Turner: I was just going to ask: is it not possible to set up smaller quangos? Of course, you have the problem of the Cabinet Office once again.

Mrs Spelman: I am not sure that small is always beautiful. We had to really fight for the existence of the quangos that remained. They had to pass the test that they did not duplicate each other; that they fulfilled a clear purpose that needed to be carried out at arm’s length from the host Department—a regulator, for example; that they in no way duplicated the work of any other arm’s-length body; and that obviously they were not obsolete or likely to be obsolete in the near future. Creating quangos, then, is quite difficult. In fact, the triennial review that is undertaken is most likely to see further mergers.

Q226 Mr Turner: Yet we have the suggestion that passports, immigration and nationality will perhaps come into the Government once again. Should all three be one body or should they be three separate bodies?

Mrs Spelman: It is very interesting. I do not know any of these agencies in any detail, so I would not comment on the Home Office agencies. Facing the prospect of a triennial review, however, exploring the possibility of merging Natural England, the Environment Agency and the Forestry Commission, although there were synergies, there were two contraindications. It would have created an agency so large that it would have vied for power with the host agency. Another really interesting point is that, in the Environment Agency, you have different skillsets amongst its staff from Natural England and from the Forestry Commission, so just merging all those very different skillsets together is not necessarily the right answer either, whatever final decision the Department should reach.

Mr Redwood: I think there is something to be said for smaller, where that is a response to my criterion of focus: if there is a piece of work that could best be done separately and more efficiently, I have no objection to a small quango. The proof that that is true, however, would be in the costs, and I would accept the case only if the cost of doing it through that mechanism, with the extra cost of the senior executives, was cheaper than doing it as part of the general departmental work. That is possible; it could be possible to achieve those efficiency gains and better process by focus that would justify the overhead.

I am much more suspicious of these very large agencies, Mr Chairman, and I think the Environment Agency is too big and does far too many things. I think a Minister, surely, would find the chairman of the agency a bit of a rival, in some ways, and I think it is a difficult relationship because of that, because the chairman of the Environment Agency is responsible for so much that the Secretary of State is ultimately responsible for that, although we have had very successful relationships, apparently, if I were remodelling it I would want it to be rather smaller and more focussed. I do not think that as many things as are in the Environment Agency should be in it.

Mrs Spelman: I did not feel the relationship as rivalry, and I think that is because, from the outset, it was clear that I was going to fight their corner to keep them and that we were going to be working very closely together in crisis situations, which we regularly faced with drought, with flood and with disease.

One thing I think it important for the Committee to know and I would not want to miss is that another important decision was made, strategically, not just to reduce the number of arm's length bodies according to certain criteria but also to require them to cease making policy. This was very important, because large numbers of people were employed in the agencies creating policy. Creating policy is the fun bit of politics, but that is what the Ministers in the Departments should be doing. There was also that across-the-board decision, right at the beginning, that they would cease to make policy that we also brought through.

Q227 Mr Turner: I am aware there were lots of things that were very important, but there seemed to be a definite devolution of policy from the Government to the Environment Agency.

Mrs Spelman: It was brought back in-house. The decision to change the flood-defence-funding method was an in-house decision of the civil servants and Ministers within Defra and applied to the Environment Agency as a change in the method by which we fund flood defences.

Q228 Chair: That is useful to have on the record, thank you. Just very briefly, did either of you ever stress-test your relationships with non-departmental bodies? In the Cabinet Office and the National Security Secretariat, for example, they regularly do tabletop exercises of what happens in a crisis.

Mrs Spelman: Absolutely—twice a year.

Q229 Chair: Particularly, they stress-test the political relationships and the political and media scrutiny, so that people are ready for what is going to be thrown at them in a crisis.

Mrs Spelman: Because of the fact that Defra faces these disaster and emergency scenarios, it has a permanent 24-hour emergency room. It is the only Department in Government that staffs that seven days a week, 24/7. Twice a year, an exercise is mocked up to simulate a major disaster.

Q230 Chair: Does that include media and political scrutiny?

Mrs Spelman: It includes media and it includes other Departments. For example, in the spring of 2011, we mocked up a breach in the east coast sea defences, which, of course, is a possibility.

Chair: It is close to my heart.

Mrs Spelman: It was a three-day exercise involving the whole of Whitehall, and then an important debrief afterwards about the lessons that had been learned from it—it was called Exercise Watermark—so that, should it ever happen, God forbid, we would be better prepared.

Q231 Chair: Mr Redwood, anything to add?

Mr Redwood: No, I have nothing to add.

Q232 Chair: I think that was a very useful session from you both. Thank you very much indeed. If you have any supplementary thoughts you want to chuck us in a note, please do so, and we can either publish it as evidence or take it as private advice.

Mrs Spelman: Thank you very much.